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SIPDIS

SENSITIVE

STATE FOR SCA/CEN, EUR/ACE, EEB
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SUBJECT: TURKMENISTAN - AFGHANISTAN ELECTRICITY TALKS

REF: A. 08 ASHGABAT 469

[1](#)B. 08 ASHGABAT 957

[1](#)1. (U) Sensitive but unclassified. Not for public Internet.

[1](#)2. (SBU) SUMMARY: On February 3-5, Afghanistan's Minister of Energy and Water Resources Mohammad Ismail Khan led a delegation to Ashgabat to discuss potential increased electricity exports to Afghanistan. After meeting with recently promoted Minister of Energy and Industry, Yarmuhammet Orazgulyev, the Joint Working Group developed a protocol that currently awaits Cabinet of Ministers' approval. Key developments from this round of negotiations include recognition by Afghanistan that electricity pricing should be commercially based; an agreement to finalize a draft Power Purchase Agreement (PPA) term sheet by May 15, and Turkmenistan's commitment to provide an indicative kilowatt hour price range by May 31. While many steps still remain, the agreement represents substantive progress toward increased electricity supplies by Turkmenistan to Afghanistan if approved by Turkmenistan's Cabinet of Ministers. END SUMMARY.

LITTLE ADVANCE NOTICE FOR JOINT WORKING GROUP'S THIRD ROUND

[1](#)3. (SBU) After Afghanistan submitted a formal request for the third meeting of the Joint Working Group (JWG) in November 2008, USAID Kabul learned on January 28 that the Turkmen side had scheduled the next meeting for February 3. (reftels A and B) In a brief meeting on February 2, Turkmenistan's Ministry of Energy and Industry (MOEI) Head of Investments and Technological Projects Dortkuli Djelilov confirmed to USAID Country Representative and FSN that the MOEI had yet to receive an agenda for the meeting. On February 2, the delegation, led by Afghanistan's Minister of Energy and Water Resources (MEW) Mohammad Ismail Khan and composed of MEW Planning Director Zia Gul, State Electricity Corporation (DABS) Transition Chief Ghulam Rabbani and DABS Chief Wahid Qayoub, arrived. USAID/Kabul-funded advisor Krish Krishnan provided technical support for the delegation.

[1](#)4. (SBU) On February 3, the delegation met with recently promoted Minister of Energy and Industry, Yarmuhammet Orazgulyev, and Turkmen specialists from the Joint Working Group. (NOTE: Orazgulyev played a key, constructive role in past JWG meetings, so required little time to get up to speed. END NOTE.) Ismail Khan outlined Afghanistan's desire for increased electricity to two points -- Herat province through existing infrastructure and Kabul (via Mazar-i-Sharif) through planned new infrastructure.

15. (SBU) Orazgulyev clarified that the MOEI viewed the new 500 KV line as the main topic for the discussions, and acknowledged the need for this new line. In order to start construction, however, Turkmenistan needed to address other unresolved factors, such as gas supply for a new generation facility, financial resources from the Turkmen side's commitments, and improved dispatch functions. The ministry had already begun working on these technical aspects, and once resolved, the project must still be submitted to Cabinet of Ministers (CabMin) for approval. Once these issues were solved, the conditions would exist to construct the new power lines. The ministers agreed that the JWG would convene at 1700 on February 3 to begin discussions on issues prepared by the Afghan side.

JOINT WORKING GROUP HAMMERS OUT DRAFT PROTOCOL

16. (SBU) Meeting until almost 2200 on February 3 and again during morning and afternoon sessions on February 4, the JWG arrived at a draft protocol that was sent directly to the Cabinet of Ministers for approval. Key points include:

- The Afghan party prefers that the proposed commissioning date of the interconnection for the delivery of up to 300 MW is December 31, 2011;

- The MOEI has reviewed the draft Terms Sheet for the Power Purchase Agreement (PPA), developed by the Afghanistan team and agreed to provide its comments within 3 months to the Afghanistan delegation for review and discussion;

- By June 2009, MOEI will provide the price of one kilowatt hour of electricity;

ASHGABAT 00000199 002 OF 003

- The Afghanistan is working with its donors and agreed to provide a firm guarantee for payment of energy received in the form of a sovereign commitment from the Afghanistan potentially backed by an international financial institution such as the World Bank or Asian Development Bank guarantee, prior to the conclusion of the negotiations of a PPA;

- The members of the JWG shall...meet each six months beginning July 1, 2009 and each six months thereafter...to discuss progress and address potential issues in a timely manner;

- Both parties agreed to the following schedule for key activities to finalize and sign the PPA:

- Negotiation and finalization of the draft PPA Term Sheet - May 15, 2009;

- Preparation of draft PPA for initial discussions (draft to be prepared by MEW and sent to MOEI) - June 30, 2009;

- Comments from MOEI on draft PPA to MEW - July 31, 2009;

- First negotiations meeting in Ashgabat - September 2009;

- Revise PPA and distribute for final negotiations - October 2009;

- Final PPA negotiations and signing of PPA - date shall be determined later; and

- Taking into consideration the power export offer of Afghanistan party related to the direction Gorogly-Hamyap-Garkyn and to Badghyz province through Maruchak, Turkmenistan party agreed to review the technical capacities after the Afghanistan party will provide the power requirement for the region.

17. (SBU) The Turkmen side refused to accept Afghanistan's proposal for language accepting or acknowledging the proposed interconnection date of December 31, 2011, because it had not received Cabinet of Ministers approval for the project. On the same grounds, it refused to allow a start date for construction to be referenced in the schedule for key activities needed to finalize the PPA.

AFGHANS DEPART SATISFIED WITH DRAFT PROTOCOL'S SPECIFICS

18. (SBU) Upon conclusion of negotiations on the afternoon of February 4, the Afghan side was satisfied with the protocol's content according to the USAID/Kabul-funded consultant. Turkmenistan's lead negotiator expressed optimism that the agreement

could be signed that night before the Afghan delegation's planned departure at 0600 on February 5. At 2045 on February 4, however, the MOEI called USAID FSN and advised that the Cabinet of Ministers had not been able to clear it due to late receipt. (Post will forward a cleared copy of the agreement, once it is produced.) The Afghan team agreed to delay its departure until 1500 on February 5, but learned late that morning that the Cabinet of Ministers was still reviewing the document. Rather than extend the team's stay a second time, Minister Ismail Khan decided to return to Afghanistan to await its forwarding upon approval.

¶9. (SBU) COMMENT: If approved as drafted by Turkmenistan's Cabinet of Ministers, the agreement represents substantive progress toward increased electricity supplies by Turkmenistan to Afghanistan. The acknowledgement by Afghanistan that the electricity pricing should be commercially based is noteworthy since it allows the Turkmen side to proceed with commercial justifications separate from past humanitarian considerations. Furthermore, the Turkmen side was much more frank than in past discussions when acknowledging its limitations to make commitments without prior Cabinet of Ministers approval for the project. Dates in past protocols have been subject to slippage, but this document provides more detailed steps and concrete commitments than previous protocols, which may explain the Cabinet of Minister's thorough review.

¶10. (SBU) COMMENT CONTINUED: At two separate points in the negotiations, MOEI staff appeared to refer to information provided by USAID/Turkmenistan's recent consultant on investment options for this project, excerpts from which were delivered just prior to the meeting. First, unofficial JWG discussions related to possible pricing for electricity used information consistent with USAID's projections. Additionally, a brief reference to future PPA discussions highlighted Afghanistan's lack of commitment to a fixed quantity of electricity in the draft term sheet. Absent such a commitment, Turkmenistan cannot adequately calculate the project's commercial viability. These and other issues must be addressed in future JWG meetings. The Afghan side has benefited from

ASHGABAT 00000199 003 OF 003

considerable technical support in the past, and it appears that the Turkmen side is slowly recognizing the potential benefits it stands to receive from this type of support as well. USAID will continue its support for both sides while playing the role of "honest broker" on price negotiations as the parties seek a deal that benefits both Afghanistan and Turkmenistan. END COMMENT.

MILES